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CHARLES ELMORE

IN THE

Supreme Court of the United States

October Term, 1950.

No. 185

BAKER-CAMMACK HOSIERY MILLS, INC., and
BAKER-MEBANE HOSIERY MILLS, INC.,
Petitioners,

v.

THE DAVIS COMPANY,
Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT AND BRIEF IN SUPPORT THEREOF.

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Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT AND BRIEF IN SUPPORT THEREOF.

To the Honorable, the Chief Justice and Associate Justices of the Supreme Court of the United States:

Your Petitioners, Baker-Cammack Hosiery Mills, Inc., and Baker-Mebane Hosiery Mills, Inc., respectfully pray for a writ of certiorari to the United States Court of Appeals for the Fourth Circuit to review the judgment of that Court entered April 11, 1950 (Vol. III, p. 80), affirming in part two judgments of the District Court of the United States for the Middle District of North Carolina (Vol. I, pp. 22, 37).

A certified transcript of the record of the cases, including the proceedings in said Court of Appeals, is furnished herewith in accordance with the rules of this Court.

HISTORY OF THE CASE.

These consolidated causes were instituted by the filing of two complaints for patent infringement by The Davis Company (hereinafter referred to as the Respondent). One complaint was filed on December 28, 1946, against Baker-Cammack Hosiery Mills, Inc., of Burlington, North Carolina, charging infringement of five patents (Gastrich and Getaz). The other complaint was filed on July 22, 1948, against Baker-Mebane Hosiery Mills, Inc., of Mebane, North Carolina, charging infringement of the same five patents and of one additional patent (Davis). Answers were duly filed denying validity and infringement, and also alleging that the patents in suit were unenforceable by reason of violation of the Anti-Trust Laws and abuse of monopoly. The two actions were consolidated for trial in the United States District Court for the Middle District of North Carolina on January 3-19, 1949. On June 17, 1949, the District Judge entered two separate decrees, one against each defendant, concluding that all of the patents in suit were valid and infringed and also that plaintiff was not guilty of any violation of the Anti-Trust Laws or misuse of said patents.

In each of the aforementioned decrees it was adjudged *inter alia* that one hundred and sixty-four hosiery mills (Vol. I, pp. 25-30) who were not parties to the litigation, but had contributed to the defense, were bound by the decision on all issues excepting that of infringement. The opinion of the District Court is reported at 86 F. Supp. 180.

Your Petitioners, in due course, filed an appeal to the United States Court of Appeals for the Fourth Circuit. Argument on said appeal was held on January 10, 1950. A few days prior thereto a civil action was instituted in the United States District Court for the Southern District of New York, by the United States of America, acting under the direction of the Attorney General, against Respondent, charging that its patents were being used to restrain com-

merce and to monopolize the elastic top hosiery industry (Vol. III, p. 8). In said action, which has not yet been determined, the Government asks for a dissolution of The Davis Company and for a setting aside of all contracts and agreements entered into by that company relating to its patents. Petitioners at once filed with the Court of Appeals a written motion for a stay of proceedings, citing the above mentioned suit by the Government, and inviting attention to the possibility of conflict between separate Federal Courts dealing with the same subject matter (Vol. III, p. 4).

On April 11, 1950, the Court of Appeals rendered its opinion, reported at 181 F. (2d) 550. It denied the aforesaid motion to stay proceedings. It affirmed the judgments of the District Court as to five of the patents in suit (Davis and Getaz), holding them to be valid and enforceable and to have been infringed by Petitioners. It modified the opinion of the District Court as to one patent (Gastrich), holding it to be limited to full-fashioned hosiery and, therefore, not infringed. It left open for later decision, on accounting for damages, the question of whether any of Petitioners' knitting machines were acquired under circumstances creating an implied license to use them free of royalty.

SUMMARY STATEMENT OF THE SUBJECT MATTER INVOLVED.

Respondent is a patent holding corporation. It was formed in 1946 to hold the patents in suit and nine others in trust for three beneficial owners from whom it acquired its title. They are Scott & Williams Company, the largest manufacturer of circular hosiery knitting machines in the United States; Interwoven Stocking Company, the largest manufacturer of men's socks in the world; and W. B. Davis & Son, Inc., which until recently owned and operated a large hosiery mill in Alabama (Vol. I, pp. 86, 176). Under the trust agreements all royalties from licenses and recoveries

for infringement are distributable to the three beneficial owners in specified proportions (Vol. I, pp. 221-232).

Prior to the institution of the instant causes and up until a few days before the trial thereof in the District Court, Respondent offered to the industry one and only one form of license under the pooled patents. This "standard form" could not be modified "without the unanimous consent of all stockholders" of The Davis Company (Vol. I, pp. 113-114, 388). It offered a package or block license on the following terms and conditions (Vol. I, p. 237):

> (a) As a prerequisite to receiving rights under any of the patents, licensee was required to pay royalties under all fifteen patents of Respondent at the royalty rate of two cents per dozen pairs of stockings sold;
>
> (b) Licensee was required to continue payment of royalties without diminution until September 1961, the date of expiration of the last expiring patent, even though the patents actually used by licensee were due to expire at various earlier dates commencing in 1953;
>
> (c) Licensee was required to pay royalties upon all elastic top hosiery made and sold by it without regard to its pre-existing rights to use certain machines for the manufacture of such hosiery under said patents without payment of any royalty.

Such provisions were intolerable to many hosiery mills, including Petitioners, which had acquired some of their knitting machinery by purchase, without restriction or limitation as to use, from the former owners of the patents (Vol. I, pp. 100, 185, 193). These mills resisted Respondent's demand for tribute extending beyond the expiration of its patents and levied not only on the use of unlicensed machines, but also on the use of machines acquired under circumstances giving rise to an implied license. Had they not done so, they would have had to forfeit their existing rights as a condition of acquiring new machines.

On December 24, 1948, ten days prior to the trial, Respondent offered to the seamless hosiery industry three new types of licenses, each granting inseparable rights under a package consisting of two of the fifteen pooled patents and each giving the right to manufacture only one specified kind of elastic top hosiery (Vol. I, pp. 243-254). For each such license Respondent charged the same royalty rate, two cents per dozen pairs, previously charged for rights under the larger package of fifteen patents. At the same time Respondent announced that it reserved to itself the right to determine according to its own satisfaction which machines of licensee were the subject of existing express or implied licenses (Vol. I, p. 245). To date the new licenses offered to the industry relate to only four of Respondent's fifteen patents and to only three of the six patents sued upon. From the testimony of Respondent's president, it would appear that if a license is sought under the other three patents in suit, the terms and conditions would have to be the subject of negotiations between the parties and be approved by the directors of the patent holding company (Vol. I, p. 111). The Court of Appeals presumably holds that the original licensing plan was illegal as it is stated in the opinion that Respondent's claim for damages "must be confined to the period subsequent to December 24, 1948, when the last offer was made and restrictions upon the licenses offered in 1946 were withdrawn" (Vol. III, p. 71). Its opinion concludes with the assertion that whatever illegal restraints may have been involved in Respondent's original licensing plan have been "eliminated" and "need no longer be considered" (Vol. III, p. 78).

The issues of validity and infringement of the patents turn largely upon the question of whether the incorporation in the top of a plain knit seamless stocking of an elastic yarn known as "Lastex" (covered by a prior patent to Adamson which has now expired) constitutes an act of invention, and whether the patents are entitled to a broader

interpretation than suggested by the specific terminology of the claims. Except as to the Gastrich patent, these issues were resolved in favor of Respondent.

JURISDICTIONAL STATEMENT.

This Court has jurisdiction to review the final judgment here involved under Section 1254 (1) of the Judicial Code as amended, Title 28 U. S. C. 1254 (1), Act of June 25, 1948, c. 646, 62 Stat. 928.

STATUTES INVOLVED.

The cause presents the construction of Sections 1 and 2 of the Sherman Act, the Act of July 2, 1890, 26 Stat. 209, as amended by the Act of August 17, 1937, 50 Stat. 693 (15 U. S. C. 1, 2).

QUESTIONS PRESENTED.

1. A patent holding company owns a "complete" group of patents (six in suit and nine others) covering elastic top hosiery, machines and methods of making such hosiery. It misuses the patents by issuing to the industry one standard form of block license giving rights under the patents collectively and inseparably, and requiring the licensee to pay royalties for all manufacture and sale under the patents at the rate of two cents per dozen pairs until September 5, 1961, regardless of the earlier expiration of the patents actually used, and to pay such royalties on the total product of all knitting machines, even though many of such machines are already licensed by implication of law so that their product would normally be free of royalty. Has such an owner purged itself of its illegal actions, so as to render its patents enforceable, by belatedly offering to the industry three new license forms covering only four of its fifteen patents, each granting a block license under two of these four patents at the same royalty rate of two cents per dozen, previously charged for rights under all of its fifteen patents,

said offer reserving the right in the owner and licensor to determine according to its own satisfaction whether any machines of licensee were acquired under circumstances giving rise to an implied license?

2. Are the five patents remaining in suit (four issued to Getaz and one to Davis) sustainable with the breadth attributed to them by the Court of Appeals, particularly considering that their claims, as now interpreted, define elastic top hosiery which is identical in knitting structure with the prior art and a method of making such hosiery which was well-known to knitters long prior to the alleged inventions?

3. Is it a proper exercise of judicial power for the Court of Appeals for the Fourth Circuit to affirm the two decrees entered herein by the District Court which provide that one hundred and sixty-four hosiery mills who are not parties to these causes and have no right of appeal from said decrees are bound thereby on the issues of the validity and enforceability of the patents?

REASONS RELIED ON FOR AN ALLOWANCE OF THE WRIT.

I.

There Are Presented Questions of Public Importance and Wide Import Requiring Consideration by This Court.

A resolution by the Supreme Court of the questions presented by this Petition will have immediate purpose far beyond the particular parties involved. Directly concerned are the one hundred and sixty-four seamless hosiery mills in the United States, located in fifteen different states and in eight different judicial circuits of the United States, none of whom is a party to this litigation, but all of whom have been adjudged to be bound by the decree of the lower court as to validity and enforceability of the Respondent's patents. Equally concerned with a resolution of the questions presented is the entire seamless hosiery industry, estimated to be comprised of over five hundred mills in the United States, which is precluded from making elastic top hosiery on a single machine in a continuous automatic operation except upon the payment of tribute to the Respondent under license agreements charged by the Government to constitute a violation of the Sherman Act. As noted by the Court of Appeals in its opinion:

> "It was stipulated that one hundred and eighty manufacturers are involved directly or indirectly in the matters in issue. In argument, it was stated that there are over five hundred hosiery mills in the United States (Vol. III, p. 29). . . . The great commercial importance of the products and processes described in the patents in suit is attested by the prominence of the beneficial owners of the patents in the industrial field and by the organization of a great part of the industry in a determined effort to destroy the patents and make use of the disclosures without compensation." (Vol. III, p. 31.)

It is thus apparent that a large segment of this country's economic order is now under a cross-fire with respect to the pooled patents. This unsettled condition can only be relieved by a resolution of the important questions presented for a determination in this application for a writ of certiorari.

The legality of the Respondent's license agreements is squarely presented for determination by this Court. The Court of Appeals points out that "Licenses to use the patents have been offered by The Davis Company to the industry generally in communications which stated that the inventions constitute a complete series of patents covering plain knit elastic top hosiery" (Vol. III, pp. 34-35). In answer to the Petitioners' charge that the original license agreement offered to the industry constituted such a violation of the Anti-Trust laws and such an abuse of monopoly as to dis-entitle the Respondent to the enforcement of its rights under the patents, the Court of Appeals was of the opinion that its unlawful conditions "were eliminated from the plaintiff's offer to license the industry in a communication which was sent out on December 24, 1948, after the pending suit was brought and just before it was tried in the District Court" (Vol. III, pp. 69-70). The later license agreements, however, do not eradicate the vices of the first agreement especially since, as recognized by the Court of Appeals, there continues to exist in the Respondent complete freedom "to *negotiate* the grant of uniform licenses at reasonable royalty rates for any other type of automatic elastic top hosiery comprehended by the claims of the patents owned by it" (Vol. III, p. 70); that is, the later agreements merely "eliminated the requirement that a licensee must accept a license under all of the patents and in place thereof offered patents in suitable groups of two and left the door open to any *proposal* for the acquisition of patent rights by the announcement that the Davis Company stands ready and willing to negotiate for uniform licenses at reasonable rates for any other type of automatic elastic top

hosiery comprehended by the plaintiff's patents" (Vol. III, p. 77). Furthermore, under the later license agreements, the Respondent need not recognize an outstanding license under the patents unless the same is "established to the *satisfaction* of the company" (Vol. III, p. 71).

The patents in suit relate to an old art, namely, the manufacture of elastic top hosiery. Their asserted novelty resides in the mere incorporation of "Lastex", an improved covered elastic yarn invented by one Adamson and sold by U. S. Rubber Company since 1930, in an article which is identical in knitting structure with the prior art and by a method of manufacture well-known to knitters. No inventive problem remained to be solved when Getaz and Davis entered the field. The utter lack of invention is attested by Getaz' letter to his patent counsel in 1935, advising (Vol. I, p. 258):

> "We would like very much to find some patentable feature about this top construction as we think it is going to be an important factor in the trade, but it is so simple that it will require some close attention to find how it may be protected by patent."

The Court of Appeals likewise takes note of the fact that in 1942 the High Court of Australia handed down an opinion holding that the corresponding Australian patents to Davis were invalid for want of invention. As stated by the Court of Appeals in its opinion (Vol. III, pp. 38-9):

> "The argument against the validity of the Davis patent prevailed in 1944 in the case of *W. B. Davis & Son, Inc. v. Woolworth, Ltd.*, in the High Court of Australia where the corresponding Australian patent to Davis was stricken down for want of invention. The court held that there was no invention in taking an elastic thread (lastex) that was on the market and using it for the purpose for which it was manufactured in the manner suggested by the maker."

The Court followed the above quotation with the statement that

> "On the surface, these considerations seem persuasive but they do not bear close scrutiny."

Thus, notwithstanding the antiquity of the art and the fact that the claims of the patents define an article which is identical in knitting structure with the prior art and a method of manufacture well-known to knitters, and that the asserted novelty resides in the mere substitution of an improved elastic yarn invented by a third party, these patents (in view of the scope given to them by the Courts below) now dominate the entire seamless hosiery industry. They have been sustained with such breadth as to preclude the making of elastic top hosiery on a single machine in a continuous automatic operation (fully shown, for example, in the Sturgess Patent of 1886) except upon the payment of tribute to the Respondent under license agreement which constitutes an abuse of the patent monopoly and a violation of the Anti-Trust Act. Such dominating position has been accorded patents which differ in only minor details from prior art patents which have now expired. Obviously, the validity and lawful scope of these patents are matters of wide public interest and importance.

The essential impact of the pronouncements by the Court of Appeals on the questions here presented is of such public importance as to call for adjudication by the Supreme Court.

II.

The Probability of Conflict Between the Circuits and the Desirability of Resolving the Uncertain Situation Now Existing in the Seamless Hosiery Industry.

Many seamless hosiery mills named in the judgments below, including Petitioners, acquired some, but not all, of their knitting machinery by purchase, without restriction as to use, from the former owners of the patents (Vol. I,

pp. 100, 185, 193). They are, therefore, impliedly licensed to continue using such machines, but only such machines, without payment of royalties to Respondent. Should these mills now accept a license from Respondent, in order to enable them to practice the inventions of the patents in suit on other machines, as well as those which are freed of the monopoly, they place themselves in an obvious dilemma. They must pay royalties on their total production of elastic top hosiery unless Respondent is willing, according to its own "satisfaction," to recognize the existence of an implied license. Under its new licensing plan, Respondent still retains exclusive control of all machines, licensed or unlicensed, but may relinquish such control if it sees fit to do so.

Furthermore, if Petitioners or any of the other mills listed in and adjudged to be bound by the decrees herein accept the new licenses offered by Respondent or enter into other agreements with it, they must face the possibility of becoming parties to an unlawful conspiracy. In the suit instituted by the United States against Respondent, it is charged that its new licensing system, as well as the old one, violates the Anti-Trust laws. The Government prays that each and every such contract or agreement be set aside and cancelled and that The Davis Company shall be dissolved. It was due to this situation that the Petitioners moved the Court of Appeals for a stay of proceedings until the entry of a final decree in the Government's Anti-Trust action against the Respondent by the District Court of New York. The Court is here faced with a situation where one arm of the federal government, the Patent Office, has previously granted fifteen patents to individuals who subsequently pooled them into the Respondent holding company, and where another arm of the federal government, the Department of Justice, subsequently seeks to negate the enforcement of those rights because it is convinced that the rights have not been held by clean hands. It would constitute an injustice and hardship to the Petitioners if they are

ordered to enter into license agreements with, and to discharge an obligation to, the Respondent holding company which may later be ordered dissolved as being unlawful and in violation of the federal Anti-Trust Act. As the Anti-Trust issue involved in the Government action was substantially the same as in the instant actions, as The Davis Company was a party litigant in each action with the right to present its full defense therein, as the cases were of public moment, as a multiplicity of suits could thereby be avoided (Cf. 15 U. S. C. A. Sec. 16), it was felt that a stay of proceedings was justified in order to relieve a case of hardship or inequity. *Landis v. North American Co.*, 299 U. S. 248; *General Electric Co. v. Hygrade Sylvania Corp.*, (D. C. N. Y.) 61 F. Supp. 531; *American Federation of Labor v. Watson*, 327 U. S. 582; *Pullman's Palace-Car Co. v. Central Transportation Co.*, 171 U. S. 138.

This dilemma facing the seamless hosiery industry can only be resolved by a decision of this Court, settling the uncertain status of the patents here involved and declaring whether it shall be lawful for hosiery mills to accept the licenses now tendered by Respondent. A resolution by this Court of the questions, following adequate consideration of all the implications involved, will have immediate purpose for every manufacturer of seamless hosiery in the United States. The precise questions presented have not heretofore been determined by any decision of this Court.

III.

The Opinion Below Decides Federal Questions in a Way That Conflicts With Applicable Decisions of This Court.

The decision of the Court of Appeals "that the proofs in this case negative the existence of any conspiracy on the part of the plaintiffs, its officers and its predecessors, to violate the anti-trust statutes of the United States" (Vol. III, p. 78) is in conflict with the following applicable decisions of this Court: *Ethyl Gasoline Corp. v. U. S.*, 309 U. S.

436; *Morton Salt Co. v. Suppiger Co.*, 314 U. S. 488; *United States v. Paramount Pictures, Inc.*, 334 U. S. 131. In the *Paramount Pictures* case, this Court condemned the practice in the motion picture industry of licensing one feature or group of features on the condition that the exhibitor also take another feature or group of features. It held that such a practice violates the Anti-Trust Acts by preventing competitors from bidding for single features on their individual merit and by enlarging the monopoly of a single copyright picture by adding thereto another copyright picture which must be exhibited in order to secure the first. More recently the Supreme Court has confirmed that the rule of the *Paramount Pictures* case forbids "conditioning the granting of a license under one patent upon the acceptance of another and different license", *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, — U. S. —; No. 455, October Term, 1949, decided June 5, 1950.

Here Respondent first sought to enlarge and extend its monopoly beyond the exclusive rights inherent in the patents which it owns in three different ways:

(1) As to *time*, by collection of royalties after expiration of the patents used by its licensees;

(2) As to *subject matter*, by collection of royalties on the product and use of machines already licensed and therefore freed of the patent monopoly; and

(3) As to *scope*, by the refusal to grant one license under one patent unless another license is accepted under another patent.

Under Respondent's new licensing scheme the first of these objectionable conditions has been removed only as to three of the six patents sued upon; the second has been modified only to the extent that Respondent has announced in a letter that it will recognize existing licenses if "established to the satisfaction of The Davis Company" (Vol. I, p. 245); and the third has been modified to the extent

that instead of offering one block license under fifteen patents, Respondent offers three block licenses, each under two patents (Vol. I, pp. 246-254) at the same rate previously charged for rights under fifteen patents.

IV.

The Rulings of the Courts Below Require an Exercise of This Court's Power of Supervision.

The decrees entered herein by the Courts below, adjudging that one hundred and sixty-four firms and corporations who are not parties to the action but who constitute a large and important segment of the entire seamless hosiery industry, are nevertheless bound by the decision, calls for an exercise of this Court's supervisory power over lower federal courts.

The question involved is squarely presented to this Court for review. The extent of the Court's decrees is clearly shown by reference to the decrees themselves (Vol. I, pp. 22, 37). The Court of Appeals affirmed this action:

> "The Court also decreed in each case that the present firms and corporations comprising the Investigating Committee should be bound by the decrees except that all of them other than the named defendants were not adjudged guilty of infringement, and were not deprived of the separate defense of non-infringement (Vol. III, p. 30) . . . We are in agreement with the conclusion of the District Judge that . . . the patents are enforceable against the combined infringers represented by the Hosiery Investigating Committee in control of the defense of the suit" (Vol. III, p. 78).

The effect of the decrees on these one hundred and sixty-four firms and corporations is to bind them *in personam* without right of appeal therefrom, even as to the personal defenses of laches, acquiescence and estoppel not-

withstanding the fact that many of them have been carrying on their present knitting practices for more than ten years without suit or threat of suit on the part of the patent owners (Vol. I, pp. 130-1, 185-6). Such decision is in sharp conflict with the decisions of this Court and departs from the accepted and usual course of judicial proceedings. As early as *Merriam v. Saalfield,* 241 U. S. 22, it has been settled that a person who is not a party to an action, but who may be estopped in a later action by reason of having exercised control of the defense, cannot be bound in said first action. As said by Mr. Justice Pitney, at page 29:

> "The doctrine of *res judicata* furnishes a rule for the decision of a subsequent case between the same parties or their privies respecting the same cause of action. Obviously, the rule for decision applies only when the subsequent action has been brought."

To the same effect are decisions of lower courts which specifically hold that persons, not defendants, who have contributed to the defense of a patent infringement suit cannot be made parties, even by serving their attorneys, *Minneapolis-Honeywell Regulator Co. v. Thermoco, Inc.,* 2 Cir., 116 F. (2d) 845. Although a decree may contain an appropriate recital of the fact that a suit has been openly defended by a person not a party to the action, it cannot bind said person, *Radio Corp. of America et al. v. Edmond & Co., Inc.* (S. D. N. Y.) 20 F. (2d) 959.

WHEREFORE, your Petitioners respectfully pray that a Writ of Certiorari be issued under the seal of this Court, directed to the United States Court of Appeals for the Fourth Circuit, commanding the said Court to certify and send to this Court on a day to be designated a full and complete transcript of the record and all proceedings of the Court of Appeals had in these causes, to the end that these causes may be reviewed and determined by this Court, as provided in the statutes of the United States, that the

decree of the Court of Appeals be reversed and that Petitioners be granted such other and further relief as may seem proper.

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SUPPORTING BRIEF.

Point I.

Under the Decisions of This Court the Changes Involved in Respondent's New Licensing Plan Are Insufficient to Purge It of Its Illegal Practices.

An owner of a patent who has abused his exclusive rights cannot invoke the aid of a court of equity. As said by this Court in *Morton Salt Co. v. Suppiger Co.*, 314 U. S. 488, at page 493:

> "Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement, and should do so at least until it is made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated."

Here the improper practices have neither been abandoned nor have their consequences been dissipated. It is admitted by the president of the Davis Company that it has not yet announced the terms under which future licenses will be granted under most of its patents, including some of those in suit (Vol. I, p. 111). Apart from its offer of new licenses A, B and C (Vol. I, pp. 246-254), which relate to only three of the six patents sued upon, Respondent has done nothing except to say that it will negotiate license agreements at reasonable royalty rates. Admittedly it has not worked out the details of such agreements (Vol. I, p. 111), nor can it do so without the unanimous consent of all stockholders (Vol. I, p. 338). Its formal announcement, mailed to the industry on December 24, 1948, states the sum and substance of what Respondent now offers where it says that it "is ready and willing to negotiate" and will

recognize an existing license "if this fact is established to the satisfaction of the Davis Company."

Such a vague statement of intention does not constitute a purging. As said by this Court in *B. B. Chemical Co. v. Ellis,* 314 U. S. 495, at page 498, the mere offer by the owner of a patent "to give unconditional licenses to manufacturers on a royalty basis" does not of itself constitute an abandonment or dissipate the consequences of monopolistic practices. Especially is this true where, as here, the terms and conditions of future licenses have not even been settled, much less announced to the industry.

Point II.

The Writ Should Issue to Restore to the Public Domain the Right to Use Elastic Yarn in Hosiery.

The monopolistic practices here involved become even more oppressive when viewed in the light of the obvious character of the alleged inventions.

All of the patent claims here involved purport to cover the mere substitution of an elastic yarn for a non-elastic yarn in the top of a plain knit stocking, or the use of "high" or "proper" tension to produce an effect which differs in degree only from that which was admittedly old and common in the art.

The success of elastic top hosiery was made possible by the introduction of "Lastex", an improved elastic yarn which is the subject of an expired patent and which, as early as 1932, was available in quantity and extensively advertised for use in hosiery tops (Vol. I, p. 369). As said by the High Court of Australia, in striking down the Davis patents of Australia corresponding to one of the five patents remaining in this suit (Vol. I, p. 211):

> "The patentee simply took an elastic thread which was on the market and put forward as a thread which could be used and incorporated in knitted fabrics. But there is no invention in simply taking and using an

article or thread and using it for the purpose for which it was manufactured and in the manner suggested or directed by the manufacturer."

Similarly, as said by Getaz, the named inventor of the other four patents in suit to his patent solicitor, when he was preparing to file his applications (Vol. I, p. 258):

> "It is so simple that it will require some close attention to find how it may be protected by patent."

These patentees merely borrowed from the prior art certain knitting practices which were second nature to the ordinary knitter or fixer in order to capitalize on the opportunities offered by the elastic yarn previously invented by Adamson.

Where, as in the instant case, the claims of a group of patents are so broadly construed as to cover the simple and obvious uses of "Lastex" in the tops of hosiery, the decision below should be corrected to restore to the public domain the right to use such elastic yarn in the manner and for the purposes for which it was intended.

This Court said long ago that it is just as important to the public that competition should not be repressed by worthless patents as that the patentee of a really valuable invention should be protected in his monopoly. *Pope v. Gormully,* 144 U. S. 244.

In the series of misuse decisions commencing with *Motion Picture Patents Co. v. Universal Film Manufacturing Co.,* 243 U. S. 502 (1917) and extending through *Mercoid Corp. v. Mid-Continent Investment Co.,* 320 U. S. 661 (1944), this Court has said that the grant of a patent is a special privilege which should be "narrowly and strictly confined to the precise terms of the grant" (*Mercoid* case, at page 665).

Likewise in the series of decisions in which this Court has recently had occasion to examine into the validity of patents, it has repeatedly announced that new combinations

involving the use of old instrumentalities according to the common skill of the art, or the mere substitution of one material for another, do not rise to the dignity of patentable inventions. *Dow Chemical Co. v. Halliburton Oil Well Cementing Co.*, 324 U. S. 320, *Cuno Corp. v. Automatic Devices Corp.*, 314 U. S. 84 and cases cited therein; *Electric Cable Joint Co. v. Brooklyn Edison Co., Inc.*, 292 U. S. 69, and cases cited therein.

Similarly, the U. S. District Court of Massachusetts following these and similar decisions, has held that there can be no invention in using elastic yarn in hosiery according to its obvious capabilities. Thus in *Scott & Williams, Inc. v. Lasticnit Co., Inc.* (D. C. Mass.), 86 F. Supp. 994, the court reached a result directly opposite to the decision in the case at bar. In answer to the same sort of argument as advanced here by Respondent it said, at page 998:

> "Any person skilled in the art having knowledge of the use of covered rubber in its tensioned condition as disclosed in the prior art (speaking of art prior to 1934) would know at once in using bare rubber that it was necessary to apply tension to the bare rubber and increase the tension by experimentation until the desired two-way stretch was obtained . . . One skilled in the art was competent to attain success after the improved rubber appeared on the market. There was nothing new in the Lawson Patent that taught how to do it that was not disclosed in the prior art."

Conclusion.

The decision below in effect renders Respondent's patents incontestable not only in the Fourth Circuit, but elsewhere, even though these patents are of the weakest character and have been used to suppress competition in the manufacture and sale of elastic top hosiery. This decision, we submit, calls loudly for a review in order to relieve the

industry of the uncertainties which now exist as a result of the judgments herein vis-a-vis the contention of the Government that Respondent is continuing to misuse its patents in violation of law.

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IN THE

Supreme Court of the United States

October Term, 1950.

No. 185.

BAKER-CAMMACK HOSIERY MILLS, INC., and
BAKER-MEBANE HOSIERY MILLS, INC., *Petitioners,*

v.

THE DAVIS COMPANY, *Respondent.*

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Fourth Circuit.

BRIEF FOR RESPONDENT IN OPPOSITION.

OPINIONS BELOW.

The opinion of the District Court (R.V.I., 42-56) is reported at 86 F. Supp. 180. The opinion of the United States Court of Appeals for the Fourth Circuit (R.V.III, 28-52) is reported at 181 F. (2d) 550.

JURISDICTION.

The jurisdictional requisites are set forth in the Petition.

QUESTIONS PRESENTED.

1. Whether Respondent's licensing practices constitute a misuse of the patents in suit, rendering them unenforceable.

2. Whether the inventions of the patents in suit are patentable.

3. Whether this court should exercise its supervisory authority to modify decrees including recitals that the identified members of the Hosiery Investigating Committee, who participated in and openly controlled the defense of the suit including the appeal and the petition to this court, will be bound by the judgment on issues other than that of infringement.

STATUTES INVOLVED.

Pertinent statutory provisions are cited in the Petition.

STATEMENT.

This is a patent infringement suit. There is no conflict of decision as to the validity of the patents in suit or as to the alleged misuse of patents by Respondent. The statements in the Petition and brief in support thereof suggesting a dispute of *law* on these issues are premised upon Petitioners' assertions of *facts,* which assertions are not established in the record and were rejected by both the trial court and the Court of Appeals.

The allegation that the trial court and the Court of Appeals exceeded their jurisdiction is bottomed upon a misconstruction of the decrees and a misapplication of the controlling law.

POINT I.

The Decision of the Court of Appeals that the Respondent Had Not Misused Its Patents Was Correct and Not in Conflict With Any Applicable Decision of this Court.

Respondent, a patent licensing company, owns fifteen patents relating to plain knit automatic elastic top hosiery (R. V. III, 71).

In 1946 Respondent offered to the hosiery industry one uniform non-exclusive license under all the fifteen patents (R. V. II, 259).

Licensees were given the privilege to make, use and sell hosiery embodying or made in accordance with *one or more* of the inventions.

The royalty was two cents per dozen pairs on all hosiery embodying or made in accordance with the invention of *one or more* of the patents. The term of the license was from September 1, 1946 to the end of the term of the last expiring of the licensed patents, i.e. March 14, 1961. The license was silent as to payment of royalty on hosiery covered only by claims of an earlier expiring patent.

Of this license the Court of Appeals said:

> "The license offered by the plaintiff in 1946 contained no restrictions as to the quantity of goods to be produced, or the price to be charged, or the territory in which they might be sold by the licensee. There were no tying clauses of any character, no pyramiding of royalties, and no requirement that the inventions must be used. The license was specifically confined to the type of manufacture of plain circular knit hosiery, embodying one or more of the inventions, expressly excepting, however, the right to make the character of goods reserved to the Interwoven Company." (R. V. III, 68-69)

Contrary to the implications of the petition and supporting brief, the license offered by Respondent in 1946 has not been condemned by any court. It is a more liberal license

than the one held by this court not to constitute a misuse of patents in *Automatic Radio Mfg. Co.* v. *Hazeltine Research, Inc.*, 70 S. Ct. 894, October Term, 1949, No. 455, decided June 5, 1950.

Following this court's decision in *United States* v. *Paramount Pictures*, 334 U. S. 131, Respondent, out of an abundance of caution, in December 1948 made a further offer to license the hosiery industry to make certain defined popular types of elastic top hosiery covered by various of its complemental patents (R. V. II, 266-268). Respondent also offered to grant uniform licenses at reasonable royalties to all comers for any other type hosiery comprehended by the claims of United States patents owned by it (R. V. II, 268).

The licenses offered in 1948 eliminated admissions of validity and were made to terminate on the expiration date of the first expiring of the specifically licensed complemental patents (R. V. II, 271).

The Respondent's offer of new licenses in December 1948 was made in good faith and as the Court of Appeals sets out:

> ". . . it was conceded by plaintiff's attorney in the argument of the case that the plaintiff's claim for damages for infringement must be confined to the period subsequent to December 24, 1948, when the last offer was made, and restrictions upon the license offered in 1946 were withdrawn." (R. V. III, 71)

In view of this concession the Court of Appeals said:

> "We shall discuss this aspect of the case in connection with the latest offer of the plaintiff to license hosiery manufacturers . . ." (R. V. III, 71)

The Court of Appeals recognized that the issue of misuse based on the original license was rendered moot by Respondent's 1948 offer of new license. It therefore considered the case realistically under the newly offered licenses which it held to be a proper use of the patents (R. V. III, 73). This holding is in accord with the controlling deci-

sions of this court. *United States* v. *United Shoe Mach. Co.*, 247 U. S. 32; *United States* v. *Winslow*, 227 U. S. 202; *Standard Oil Co.* v. *United States*, 283 U. S. 163.

Inasmuch as all licensing practices followed by Respondent uniformly extend the privilege of using the patents for a reasonable royalty without restriction or tying clause of any name or nature, they fully comply with the standards set by this court even for adjudicated antitrust law violators. *Hartford-Empire Co.* v. *United States*, 323 U. S. 386, 408; *United States v. National Lead Co.*, 332 U. S. 319.

This court has, however, left no uncertainty as to the propriety of Respondent's licensing practices in its decision in *Automatic Radio Mfg. Co.* v. *Hazeltine Research, Inc.*, *supra*. The disposition of this issue by the Court of Appeals was in strict conformity with the rulings of this court.

Petitioners repeatedly stress the pendency of a Government civil suit against Respondent in the United States District Court for the Southern District of New York in which the *complaint* alleges antitrust law violation. This civil suit was filed on December 28, 1949. The instant case was heard in the Court of Appeals on January 10, 1950. The civil suit has not gone to trial, yet Petitioners seek to give the *mere allegations* of the complaint therein the force of a judgment. In the instant case the courts below, after full presentation by Petitioners of the asserted defenses of patent misuse and antitrust law violation, found these defenses to be unsupported by the facts and without merit under the controlling decisions of this court (R. V. III, 73, et seq.). The Court of Appeals did so with full knowledge of the pending civil action (R. V. III, 79). There is no conflict of decision on any issue in this cause.

POINT II.

The Court of Appeals and the District Court Properly Held the Patents in Suit to be Valid.

The Petitioners raise no important legal questions with respect to the validity of the patents in suit. There is no conflict of decision with respect to them.

The Petitioners' argument for invalidity (pp. 10-11) is based on the postulate that the patents in suit "relate to an old art" and to the use of "Lastex", a yarn that is the subject of an expired patent to Adamson. The District Court (R. V. I, 36) and the Court of Appeals (R. V. III, 40) both found against Petitioners *on the facts.* Both courts found that "Lastex" as described by Adamson was not suitable for practicing the inventions of the patents in suit and that those inventions constituted a marked contribution to the hosiery art that led to the development of a "Lastex" yarn effective for the practice of the inventions (R. V. I, 36). The record abundantly supports the findings (R. V. II, 46, 91-92, 103, 126).

The validity of the patents in suit was properly found by both courts below. The legal principles involved are well established and not in dispute. Petitioners err on the facts. This court does not normally disturb concurrent findings of fact. *Goodyear Tire & Rubber Co.* v. *Ray-O-Vac Co.,* 321 U. S. 275; *Graver Tank & Mfg. Co., Inc., et al.* v. *The Linde Air Products Co.,* 336 U. S. 271; *Faulkner* v. *Gibbs,* 70 S. Ct. 25.

POINT III.

The Rulings of the Court Below Are in Conformity With Established Law and Call for No Exercise of this Court's Power of Supervision.

The Petition suggests that this court should exercise its power of supervision in the matter of the decrees of the District Court as approved by the Court of Appeals. The

District Court made the following finding of fact:

> I. The "Hosiery Investigating Committee" was in charge of the defense of this suit. It is an organization having as its members the 167 hosiery mills listed in plaintiff's Exhibit P-9 and possibly others. It was organized for the purpose of investigating the validity of the patents in this suit and defending litigation brought to enforce these patents (Plaintiff's Exhibit 3). It employed counsel to conduct the defense in this suit. The counsel employed by the Hosiery Investigating Committee were powerless to act without the approval of the Committee. Each of the members of the Hosiery Investigating Committee had the right actively to participate in the defense of this suit. Each of the members of the Hosiery Investigating Committee contributed financially to the defense of this suit. (R. V. I, 15)

The Petitioners in their opening statement in the trial court said:

> "If the Defendant here infringes, we believe the whole seamless, elastic-top hosiery industry infringes. We make no secret of the fact that there are nearly 200 hosiery mills that have joined here in supporting this defense." (R. V. II, 1-2)

In its opinion the District Court said:

> ". . . the patentees have been defied by a combination of 172 hosiery manufacturers who employ the inventions without the payment of royalties and who have combined together and pay the cost of the defense in this suit because their interests are alike and as might be expected every conceivable defense has been presented with great skill." (R. V. I, 55-56)

If the mills in control of the defense are not interested along with Petitioners, not represented by the same counsel and not exercising a right of appeal, why is this question raised here? The named Petitioners will not be affected by modification of the decrees. If the 164 mills should be eliminated from the decree it will still bind the named Petitioners with the same force and effect.

The decrees entered against Petitioners serve only to limit the rule of *res judicata* applicable to the members of the Hosiery Investigating Committee, and make it clear that the estoppel will not extend in a subsequent action to the question of infringement.

Both the opinions and decrees expressly reserve the right to establish an implied license wherever one may exist (R. V. I, 40, 53; V. III, 64). In support of their contentions, Petitioners (p. 16) cite the record (R. V. I, 130-131, 185-186). The first citation relates primarily to hosiery made by Adams-Millis for *Interwoven,* a *licensee,* and the second to machines acquired from Scott & Williams as to which under the opinions and decrees the purchaser is fully protected in his right to establish an implied license. Equitable defenses of others than the named defendants were advanced, considered, and on the facts found to be without merit (R. V. III, 64-65). Petitioners again err on the facts. The decree states:

> 22. As will appear by reference to the Court's findings of fact, which are incorporated herein, the defense of this case was conducted by the group of 167 persons, firms, and corporations comprising the group known as the Hosiery Investigating Committee, (said 167 persons, firms, and corporations being listed in Exhibit A, hereto attached, defense counsel having been jointly retained by said group, and said 167 members of the Hosiery Investigating Committee group shall be bound by this decree in all respects the same as the named defendant except that *those other than Baker-Cammack Hosiery Mills, Inc., and Baker-Mebane Hosiery Mills, Inc., are not hereby adjudged guilty of infringements and they and each of them are not and shall not be deprived by this decree of the separate defense of non-infringement.* (R. V. I, 41)

This recital, rather than being an onerous extension of the terms of the decree to members of the Hosiery Investigating Committee who openly espoused, participated in, and controlled the defense of the litigation, is in fact a safe-

guarding provision limiting in any subsequent action the availability to Respondent of the estoppel based on *res judicata* to issues exclusive of that of infringement. The courts below followed the salutary guidance of this court in *Lovejoy, et al.* v. *Murray,* 3 Wall. 1-19, 70 U. S. 129, 134.

In *Eagle Mfg. Co.* v. *Miller,* 41 F. 351, 357-8, later before this court as *Miller* v. *Eagle,* 151 U. S. 186, the lower court said:

> "Under the rule recognized in Lovejoy v. Murray, 3 Wall. 1, and Robbins v. Chicago, 4 Wall. 657, it is clear that the Mast & Co. Company will be as fully bound by the results of the present litigation as though the corporation was a party to the record; for it is made clear that it is the principal party in interest, being the manufacturer of the machines sold by defendants Miller, and bound by contract with them to protect them against the consequences of infringement. It has had notice of the pendency of the suit, and in fact has assumed the control and management of the defense; and therefore, under the doctrine of the cases just cited, the decree herein will in fact be binding upon the corporation. *No good reason is perceived why, by apt statement in the decree, it may not be made to appear upon the face of the decree that in fact the Mast & Co. Company is bound by the results reached in the progress of the litigation in which it has been actively engaged; for that, in effect, is only stating, in set phrase, the force which the decree would in fact have as against the corporation.*" (Emphasis ours.)

These cases were cited and followed in *Ocean Accident & Guarantee Corp., Ltd.* v. *Felgemaker, et al.* (C.C.A. 6), 143 F. (2d) 950, 952.

It was not essential to the binding force of the judgment to bring in those controlling the suit by supplemental bill or otherwise. *Van Kannel Revolving Door Co.* v. *Winton Hotel Co.,* 263 F. 988, 994.

The judgments herein are in strict conformity with the Restatement of the Law of Judgments, § 84.

Even assuming *arguendo* that the recitals in the decrees imposing limitations upon the estoppel incident to the rule of *res judicata* might better have been omitted, their inclusion is harmless error which should be disregarded within the purview of Rule 61 of the Federal Rules of Civil Procedure.

As so aptly said in *Eagle Mfg. Co.* v. *Miller, supra,* these recitals only state "in set phrase, the force which the decree would in fact have . . ." The inclusion of recitals in a judgment that state in set phrase the force thereof are not inconsistent with substantial justice. Thus even if Petitioners' contentions are accepted, they do not call for exercise of this court's power of supervision.

CONCLUSION.

Respondent submits that no occasion exists for granting the application for certiorari. No conflict of decision, either as to the specific subject matter or as to the pronouncement or application of the rules of law, and no unusual or new questions of law are presented. The Petitioners assert alleged errors of law only by assertions of fact not supported in the record and contrary to the concurring findings of the courts below.

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